

Message Text

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ACTION EUR-25

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C O N F I D E N T I A L USNATO 4904

E.O. 11652: GDS: 12-31-80
TAGS: NATO, XG, ETRN
SUBJECT: CENTRAL EUROPE PIPELINE SYSTEM (CEPS) COST-SHARING, 9 SEP
74 CENTRAL EUROPE PIPELINE POLICY COMMITTEE (CEPPC) MEETING

REF: A. STATE 121045

B. USNATO 4088

BEGIN SUMMARY. ALL COUNTRIES EXCEPT FRANCE, FRG AND US WERE
PREPARED TO ACCEPT COST-SHARING PROPOSAL MADE BY GENERAL MANAGER
AT JULY MEETING. RECOMMEND US BE AUTHORIZED TO ACCEPT ON CONTINGENCY
BASIS COST-SHARE OF 24 PERCENT. IF AND AFTER AGREEMENT
ACHIEVED TO REDUCE U.S. COST SHARE TO 24 PER CENT, USDEL WILL MAKE
IT CLEAR THAT OUR GOAL REMAINS ELIMINATION BY ONE MEANS OR ANOTHER
OF U.S. CONTRIBUTION TO PERATING DEFICIT. END SUMMARY.

1. CHAIRMAN (DUNCAN, CANADA) SUGGESTED THAT THE STARTING POINT
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OF THE DISCUSSION SHOULD BE THE COST SHARING FORMULA PREPARED
BY THE GENERAL MANAGER (ROBERTUS) AT THE LAST MEETING. FRG
(THOLEN) ARGUED THAT THE US HAS BEEN SEEKING BURDENSARING
IN THE PIPELINE FORUM AND THAT THE FRG CANNOT PARTICIPATE

ON THAT BASIS SINCE THE FRG/US OFFSET AGREEMENT COMPLETES THE FRG CONTRIBUTION TO BURDENSARING. HOWEVER, IF THE CEPPC CAN DEVELOP A NEW COST SHARING FORMULA NOT AS A RELIEF FOR ONE NATION BUT ON THE BASIS OF FACTS AND FIGURES CONCERNING THE CEPS, THEN THE FRG WOULD COOPERATE IN SUCH AN EFFORT. NEGOTIATIONS SHOULD GO FORWARD WITH ALL COUNTRIES PAYING FULLY THEIR AGREED SHARES.

2. US (BOWMAN)STATED THAT WHILE BURDENSARING IS AN ON-GOING PROBLEM FOR THE UNITED STATES, AND WHILE THE COST OF MAINTAINING US TROOPS IN EUROPE MUST BE APPRECIABLY OFFSET EVERY YEAR, THE US WAS NOT ASKING FOR A REVISION IN THE PIPELINE COST SHARING FORMULA BASED ON BURDEN-SHARING. INSTEAD, THE US FEELS THAT IT IS FORCED TO PAY A MAJOR SHARE OF MOUNTING DEFICIT OVER WHICHIT HAS LITTLE CONTROL. HE POINTED OUT THAT THE US IS WORKING WITHITS ALLIES TO IMPROVE CONVENTIONAL DEFENSE CAPABILITY IN EUROPE AND THAT ADEQUATE SUPPLIES OF PETROLEUM FUELS ARE CRITICAL TO THAT CAPABILITY; THEREFORE, THE US STRONGLY SUPPORTS THE PIPELINE SYSTEM. AT THE SAME TIME, THE US DEFENSE DEPARTMENT HAS DIFFICULTY IN EXPLAINING TO CONGRESS THE RISING CEPS DEFICIT AND THE FACT THAT US CEPS COSTS HAVE DOUBLED IN A FIVE-YEAR PERIOD. THE US HAS WORKED IN CEPPC TO CUT COSTS, BUT HOST COUNTRIES HAE PEROGATIVES IN THREE AREAS OVER WHICH THE COMMITTEE HAS LITTLE INFLUENCE: RATES ON COMMERCIAL MOVEMENTS, NATIONAL TAXES ON COMMERCIAL REVENUES, AND STAFFING REQUIREMENTS OF NATIONAL DIVISIONS.

3. FRANCE (GENTILHOMME) STATED THAT GOF COULD NOT AGREE TO THE VALIDITY OF US ARGUMENTS BUT FELT THEY COULD CONSIDER THE GENERAL MANAGER'S COST SHARING FORMULA IN THE LIGHT OF OBJECTIVE CRITERIA SUCH AS VARIOUS MEASURES OF NATIONAL USE OF THE PIPELINE. IN THE MEANTINE, HOWEVER, THE CASH REQUIREMENTS OF THE PIPELINE SYSTEM WILL SOON BE CRITICAL. THE GENRAL MANAGER STATED THAT THE CRITICAL POINT WOULD BE REACHED IN MID-OCTOBER WHEN IT WOULD BE NECESSARY TO PRE-FINANCE NOVEMBER COSTS.
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3. THE CHAIRMAN PRESSED FOR AGREEMENT ON AN "INCENTIVE" FACTOR INCREASE IN THE HOST COUNTRIES SHARE OF THE COST SHARING FORMULA. BELGIUM AND NETHERLANDS INDICATED THAT THEY DID NOT EXCLUDE THE POSSIBILITY OF SUCH A FACTOR BUT IT WOULD HAVE TO BE ARRIVED AT ON A POLITICAL BASIS RATHER THAN THROUGH ANY SORT OF QUANTITATIVE DATA RELATING TO THE PIPE-LINE. BELGIUM (DUPONT) STATED THAT PEACETIME AND WARTIME USAGE SHOULD NOT PROVIDE SOLE BASIS FOR THE COST SHARING FORMULA SINCE THAT WOULD PENALIZE OTHER COUNTRIES WITH HIGH USAGE THAT ARE ALREADY MAKING A GREAT CONTRIBUTION. FRG STATED THAT IT COULD ACCEPT USAGE AS A BASIS FOR DISCUSSION BUT COULD NOT ADMIT AN "INCENTIVE" FACTOR. FRANCE STATED THAT IT WAS STUDYING THE TAX PROBLEM WHICH DESERVED FURTHER EXAMINATION AND

COULD RESULT IN A "CORRECTION" IN THE COST. FRANCE WAS UNABLE TO TABLE ANY PROPOSAL FOR THE MOMENT BUT HOPES TO DO SO SOON. FRANCE CHALLENGED THE USAGE FACTORS USED BY THE GENERAL MANGER ON THE GROUNDS THAT THEY WERE MERELY A ROUGH AVERAGE OF OTHER AVERAGES. THE CHAIRMAN AND OTHER MEMBERS POINTED OUT THAT BY AVERAGING SIX SEPARATE MEASURES OF PIPELINE USAGE THE COMMITTEE COULD GET AROUND THE FACT THAT EACH COUNTRY PREFERRED THE MEASURES MOST FAVORABLE TO ITS OWN INTEREST, IN EFFECT EVERYONE WOULD BE SETTling FOR A COMPROMISE MEASURE OF USAGE.

4. CANADA, UK, BELGIUM, LUXEMBOURG AND NETHERLANDS ACCEPTED THE GENERAL MANGER FORMULA. CHAIRMAN AND GENERAL MANGER PRESSED THE FRG ON THE POINT THAT THE FRG WAS PREPARED TO ACCEPT A COST SHARING BASED ON USAGE, SHOWN AT 22.81 PER CENT, BUT UNABLE TO ACCEPT THE 24 PER CENT COST SHARE PROPOSED BY THE GENERAL MANAGER. FRG ASKED THE US TO INDICATE WHETHER THE US WAS READY TO ACCEPT THE PROPOSED 24 PER CENT SHARE AND WILLING TO FULFILL ITS COMMITMENT FOR THE CURRENT YEAR AT 36 PER CENT. US REP AGREED TO HAVE THE ANSWERS TO THESE QUESTIONS BY THE NEXT MEETING. OTHER MEMBERS INDICATED THAT THEY FAVORED IMPLEMENTATION OF THE NEW RATES AS OF 1 OCTOBER 1974. REF A GIVES MISSION THIS FLEXIBILITY.

5. GENERAL MANAGER INDICATED THAT CRISIS WILL COME IN OCTOBER WHEN CEOA MUST BE IN A POSITION TO PRE-FINANCE DIVISION COMMITMENTS FOR NOVEMBER AND THAT INABILITY TO DO SO
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COULD RESULT IN HOST COUNTRIES HAVING TO FINANCE THEIR OWN DIVISIONS A PRACTICE WHICH COULD RESULT IN RAPID DISINTEGRATION OF THE SYSTEM. THE GENERAL MANAGER HAS REQUESTED THAT AFCEC BRING THE MATTER TO THE ATTENTION OF SACEUR. HE SAID IT WAS UNTHINKABLE THAT A UNIQUE MULTI-NATIONAL LOGISTICS FACILITY SUCH AS THE CEPS SHOULD BE PUT IN JEOPARDY FOR A DISPUTE OF A FEW HUNDRED THOUSAND DOLLARS WHICH REPRESENT LESS THAN THE 2 PERCENT OF THE ESTIMATED ATTRITION RATE OF THE 3,000 AIRCRAFT THE SYSTEM WOULD HAVE TO SUPPORT IN WARTIME.

6. CHAIRMAN CONCLUDED THAT COUNTRIES HAVE HAD ADEQUATE TIME SINCE JULY TO MAKE ALTERNATIVE PROPOSALS TO GENERAL MANAGER'S PROPOSAL. HAVING FAILED TO DO SO IN INTERIM, COUNTRIES SHOULD NOT RAISE MAJOR OBJECTIONS NOW. FRANCE, FRG, AND US AGREED TO INDICATE NATIONAL POSITIONS ON 24 PER CENT SHARES AT THE 19 SEPTEMBER MEETING. RECOMMENDATION: MISSION RECOMMENDS THAT - CONTINGENT UPON FRANCE AND FRG ACCEPTING LIKE SHARES - US BE AUTHORIZED TO ACCEPT 24 PER CENT SHARE.
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